



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#129725

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DATE: 03/12/2019

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE EXIT REVIEW
FOR JUSTICE OF THE PEACE, PRECINCT 4**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Exit Review for Justice of the Peace, Precinct 4.

BACKGROUND:

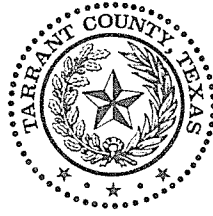
The Commissioners Court appointed Judge Elect Christopher Gregory to the unexpired term of Justice of the Peace, Precinct 4, effective October 16, 2018. The Auditor's Office conducted selected procedures to provide accountability for the transfer of authority to the incoming Justice of the Peace. Exhibit A, attached, describes the scope and methodology of the exit review.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell
APPROVED BY:



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February 25, 2019

The Honorable Christopher Gregory, Justice of the Peace, Precinct 4
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Exit Review for Justice of the Peace, Precinct 4

SUMMARY

On September 21, 2018, the former Justice of the Peace, Precinct 4 (JP4) of 27 years was suspended by the State Commission on Judicial Conduct. Judge Elect Christopher Gregory, was appointed by Commissioners Court to the JP's unexpired term and assumed office on October 16, 2018. The Auditor's Office conducted selected procedures to provide accountability for the transfer of authority to the incoming JP4. These procedures include the verification of cash and other receipts, fiduciary fund balances, and County assets assigned to the JP. Exhibit A further describes the scope of our work. Based on the results of our testing, the transfer of authority appears to be complete. However, we observed *significant material weaknesses* in the controls over receipts and disbursements combined with the lack of segregation of duties and management oversight. These conditions existed prior to the new official assuming office on October 16, 2018. Because of the *material weaknesses* identified, a *significant material risk* of theft or loss of funds existed. As a result, we cannot provide reasonable assurance regarding the timely detection or prevention of fraud. Specifically, we observed that:

- Observation 1 Segregation of duties was not adequate between certain incompatible tasks.
- Observation 2 Procedures for the disposition of misdemeanor cases in the Odyssey Case Management System (Odyssey) were not adequate.
- Observation 3 Transactions processed in Odyssey were not always accurate or adequately supported.
- Observation 4 Certain system functionality has not been implemented in Odyssey.
- Observation 5 The bank reconciliation was not properly reconciled.

We discussed these conditions with Judge Gregory on February 25, 2019. Attached is his written response.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 Segregation of duties was not adequate between certain incompatible tasks.

Background

Lack of segregation of duties occurs when a few employees are required to perform incompatible tasks. In situations where it is impossible to separate duties due to the small number of employees, additional controls should be implemented. The JP4 office is staffed with six Court Clerks, one Court Manager, and the JP.

Beginning October 1, 2018, JP4 began using the County's consolidated bank account to deposit daily collections. JP4 staff will continue to reconcile the existing bank account until it is closed. Once the JP4 bank account is closed, the remaining balance will be transferred to the County's consolidated account.

Observations

During our review, we found that the Court Manager has the ability to approve voided transactions, reconcile daily cash receipts, prepare the deposit, write checks from the JP checking account, and prepare the bank reconciliation and monthly financial reports. The Court Manager typically does not accept payments. The former JP was the only authorized check signer. Although we believe some of these tasks to be incompatible, we understand the staffing limitations of the JP offices. Furthermore, there was no evidence that the JP reviewed monthly financial reports or bank reconciliations.

Due to the lack of segregation of duties and management review, unauthorized and inappropriate transactions may not be prevented or detected.

Recommendations

Since staffing limitations do not always allow incompatible duties to be segregated, we recommend procedures be implemented to prevent and detect unauthorized transactions. Specifically:

1. The JP should review all financial reports, including the monthly reports and check register, to verify the accuracy and appropriateness of transactions. Ideally, these reports should be reviewed by the JP prior to submission of the reports to the Auditor's Office each month. The JP should sign and date the reports as evidence of his review.
2. Whenever possible, the JP should sign requests for disbursement from the consolidated account. For those check requests issued without the JP's signature, we recommend the JP review supporting documents, including case files, subsequent to submission of the check request to the Auditor's Office. The JP should sign and date the documents as evidence of his review.

Observation 2 Procedures for the disposition of misdemeanor cases in the Odyssey Case Management System (Odyssey) were not adequate.

Background

JP4 was one of the first courts to implement Odyssey; go-live was October 4, 2009. Case information, including receivable balances, were converted from the *Mainframe*. However, data converted from the *Mainframe* was not validated for accuracy after it was imported into Odyssey.

Observations

During our review, we requested the Information Technologies Department (ITD) provide data from Odyssey for active and inactive misdemeanor cases with a balance due. Based on the data provided by ITD, we found 5,006 active cases as of September 30, 2018, with an accounts receivable balance totaling approximately \$1,527,581. Specifically, we observed that:

1. 44 of the 5,006 cases were converted from the *Mainframe*. 21 of the 44 cases have a zero balance, but are still active in Odyssey. The remaining 23 converted cases have an accounts receivable balance totaling \$4,176.
2. 857 inactive cases as of September 30, 2018, with an accounts receivable balance totaling approximately \$119,381. For these 857 cases, 496 had a *net* accounts receivable balance totaling approximately \$43,381 and were converted from the *Mainframe*. Many of these case balances should be adjusted to zero. This condition occurred because procedures to validate data converted from the *Mainframe* did not exist. In addition, JP4 did not have procedures to monitor balances remaining on disposed cases.

At this time, the Auditor's Office is unable to determine whether the accounts receivable balances recorded in Odyssey totaling approximately \$1,646,963 are due and collectible.

During our review, JP4 staff began reviewing each case to determine whether the case should be finalized and whether receivables should be adjusted.

Recommendations

We recommend JP4 staff continue to review active and inactive misdemeanor cases with outstanding balances owed to the County. JP4 staff should make necessary adjustments to clear balances due and finalize disposed cases. Management should ensure written procedures are developed for the disposition of all cases and ensure staff is adequately trained.

Observation 3 Transactions processed in Odyssey were not always accurate or adequately supported.

Background

Odyssey contains essential case information, which includes relevant parties, case type, bonds, fees charged and paid, balances due, case comments, paper service, receipts, disbursements, and case disposition. Assessments, credits and adjustments to fines, fees and court costs are applied based on the JP's approval or as allowed by statute. Types of credits include community service, jail time served, and judicial waiver. Currently, a case jacket contains records essential to the JP and other county offices.

Observations

During our review, ITD provided data queried from Odyssey for transactions determined to be high risk: voids, reversals, adjustments, jail time served, community service credit (CS) and judicial waivers. Based on the data provided by ITD, JP4 processed 1,703 transactions in which a void, reversal or adjustment occurred. We selected a sample of 50 transactions for review and found that transactions processed in Odyssey were not always accurate or adequately supported. For example, we observed:

1. A case in which an adjustment totaling (\$25) was entered on August 2nd for a declined credit card payment receipted in error on July 23rd. This resulted in JP4 financials being overstated until the adjustment was entered. While the Court Manager identified this error during the monthly bank reconciliation process, this condition occurred because credit card transactions were not reconciled until the following month.

In addition, we found several judgments contained in case jackets in which the fine and court costs were not listed. At this time, JP4 staff did not scan documents to the case docket. As a result, a completed Judgment did not exist.

2. A case in which an eviction was filed in the wrong precinct. The clerk filed the case and issued a receipt on May 18, 2018. The receipt was subsequently voided on May 21st; however, the financial balance remained on the case at the time of our review. The charges were adjusted to zero during the audit.

Additionally, JP4 processed 57 transactions in which community service, jail time served or a judicial waiver credit was applied to a case. We selected a sample of 25 transactions to review and found that credits or waivers applied were not always accurate and adequately supported. For example:

1. A case in which the community service hours completed by the defendant did not agree with the number of hours (40) ordered by the Court. The completed community service form indicated the defendant served 23.2 hours. There were no notes in the case file or Odyssey regarding the remaining 16.8 hours. We cannot determine whether the credit of \$397 applied was appropriate.

2. Two cases in which the community service documents were either not complete or could not be located in the file. Specifically, we found a community service referral form in the case file, but it was not signed by the defendant. We were unable to find the community service referral form for another case.
3. We reviewed all 12 judicial waivers processed by JP4 staff during the review period and found an exception with 6 of them. In one instance, a judicial waiver credit was applied to the case instead of jail time served. We reviewed the two companion cases associated with this case and found that jail time served was correctly applied. However, we noted that all three judgements were incomplete as the fine and court costs were not listed.
4. Two cases, a small claim and an eviction case, were created in error. A judicial waiver credit was applied in error to clear the financial balance on the case. Instead, an adjustment should have been used to reduce the charges to zero. In addition, Odyssey indicated an *Order of Dismissal without Prejudice on Court's Motion* was created due to the clerical error. However, the documents were not found in either case file.
5. Three cases in which notes from the Criminal District Attorney's (CDA's) office indicated the defendants were to pay court costs only. The clerk entered judicial waiver credit for the fine on each case instead of using an adjustment to reduce the fine charges to zero.

Without adequate documentation or appropriate approval for voids, adjustments and credits, errors and fraud may not be prevented.

Recommendations

We recommend JP4 develop written procedures regarding the application of community service credit and judicial waivers. Staff should be trained on:

- making adjustments in Odyssey based on individual case specifics,
- reviewing court documents for completeness and accuracy,
- entering uncommon transactions and finalizing cases in Odyssey,
- ensuring case jackets (electronic files) include all *required* supporting documentation, and
- the Judge's approval is documented.

We also recommend the JP consult the CDA's office regarding resolution of the case in which CS credit was granted when the court ordered number of hours had not been completed.

We recommend the Court Manager contact ITD to determine the cause of the fine and court costs not appearing on the Judgement.

Observation 4 Certain system functionality has not been implemented in Odyssey.

Background

When misdemeanor cases are entered into Odyssey, the system pre-populates the court costs, fees and fines even though a plea has not been entered and a judgment rendered. The JP has the authority to

determine fines within a specific dollar range. In addition to accepting payments from defendants, court clerks make adjustments to court costs, fees and fines and enter credit for CS, Jail Time Served and Judicial Waivers into the system, reducing amounts owed.

Observations

We observed that certain system functionality to mitigate the risk of errors or irregularities had not been implemented in Odyssey, which impacts all the JP courts. We recognize that these issues are inherent to the system and have been identified in audits of the other justice courts. For example:

1. When processing a transaction in the adjustment till, staff have the ability to modify pre-populated court costs, fees and fines. Currently, fines are configured as part of court costs. If a judgment rendered waives or reduces any portion of the fine, staff could erroneously adjust court cost and fees.
2. We observed that a fee code to account for over payments was not implemented for the JP courts. This functionality allows a fee office to receipt all funds received by the court even though it may exceed the charges due. This feature was implemented by the County Clerk's office.

ITD has developed the over payment functionality for the JP courts and testing has begun. Once testing is complete the feature will be implemented for use by all the JP courts.

Recommendations

We recommend that the JP consult ITD regarding implementation of functionality that will mitigate risk of errors and irregularities. Specifically, create a separate fee schedule for fines rather than including fines as part of the pre-populated court costs. In addition, all receipts should be entered for the collected amount until the over payment functionality is implemented.

Observation 5 The bank reconciliation was not properly reconciled.

Background

JP4 accepts cash, checks, money orders, and credit cards for payment of court costs, fees and fines. Credit card payments are processed at the counter and through the internet. Credit card transactions are processed through Certified Payments who provides various reports detailing credit card transactions. JP staff records daily receipts into Odyssey which are deposited into a separate JP4 bank account (and as of October 1st, the County's consolidated account) at JPMorgan Chase Bank.

JP staff submits a monthly financial report to the Auditor's Office for inclusion in the County's general ledger. The Court Manager is responsible for preparation of the monthly financial reports including the bank reconciliation.

Observations

During our review, we found that monthly bank reconciliation procedures were not adequate. Specifically, JP staff did not accurately reconcile credit card transactions shown on the bank statement to the transactions shown on the Certified Payments reports. Specifically, we observed:

1. On July 17, 2018, a credit card payment totaling \$232 was processed by Certified Payments for two eviction cases. Two receipts were issued totaling \$242, resulting in a \$10 shortage. The error was found on August 2nd during the bank reconciliation process and the plaintiff was notified of the shortage. However, Odyssey was not adjusted to reflect the correct amount received on July 17th. The plaintiff brought \$10 cash to the JP4 office on September 6th. The \$10 was deposited into the JP4 account without being receipted in Odyssey.
2. Certified Payments deposited two separate \$155 credit card transactions for an eviction case on July 5th and August 15, 2018. JP4 staff receipted the credit card posted to the bank on July 5th, but did not receipt the transaction deposited on August 15th. As a result, receipts were understated in Odyssey. This error was identified during the exit review and the Court Manager issued a receipt and a reconciling item was added to the December bank reconciliation.

In addition, JP4 received a refund request from Certified Payments. On August 8th, check #3404 was issued for \$155; however, the check was not recorded in Odyssey until September 4th. Although, the Court Manager caught the error during the bank reconciliation process the check was not recorded in the appropriate reporting period. This resulted in a gap in sequence on the Odyssey Check Register.

3. Two checks remained outstanding on the JP4 bank reconciliation for more than six months. Specifically, check #3224 was issued on 8/24/2017 for \$500 and #3309 was issued on 2/13/18 for \$868.35. According to staff, the post office returned both checks as unable to deliver or attempted not known. During our review, the Court Manager was instructed to void both checks. The funds will be held in the Registry of the Court until claimed by the rightful party or the funds can be escheated to the State.

Recommendations

Because credit card receipts settle anywhere between two and five business days from the date of the transaction, we recommend the Court Manager reconcile credit card receipts recorded in Odyssey to Certified Payments reports on a daily basis. Receipting errors identified from the reconciliation should be corrected immediately. The Court Manager should ensure all receipts and disbursements are recorded in Odyssey at the time they occur.

Scope and Methodology
JP4 Exit Review
September 21, 2018

- 1) Performed cash counts of change funds in the custody of the JP's Office as of September 21, 2018 and November 20, 2018.
- 2) Determined whether JP signature stamps were used by staff and documented the destruction of signature stamps.
- 3) Using the Odyssey Receipt Journal, verified proper cutoff for computer-generated and manual *receipts*. Reviewed receipts for sequential issuance and unusual items.
- 4) Using the Odyssey Check Register, verified proper cutoff for computer-generated and manual *disbursements*.
 - Determined whether computer-generated checks agree to manual checks issued and were issued in sequence.
 - Review the check register and manual checkbook for unusual items.
- 5) Requested the bank to remove the *prior* elected official's signature authority. We also obtained the new bank signature cards.
- 6) Reviewed the JP4 bank account reconciliations for the months of July through October 2018 and determined whether they were complete, accurate, and properly approved.
- 7) Obtained documentation to support the removal and addition of authorized signers for the Accounts Payable signature list and ReadSoft authorizations.
- 8) Verified that the *prior* official's security authorizations were deactivated and the *incoming* official's security authorizations were activated for the various County computer systems and applications, as well as the JP's online banking.
- 9) Verified the *prior* JP surrendered office keys, building access card, employee identification badge, and other assigned assets.
- 10) Determined whether conference or training fees, dues or memberships were paid from the County's general fund. Obtained reimbursement from the *prior* exiting official as required by policy.
- 11) Verified inventory assigned to the office was properly accounted for.
- 12) Obtained a copy of the incoming JP's Official Oath and Bond per Texas Constitution, Article XVI, §1(a) and Texas Government Code 27.001.
- 13) For the five months ended September 2018, determined whether adjustments or modifications to financial transactions recorded in Odyssey were accurate, complete, adequately supported, and had the appropriate level of supervisory approval.
- 14) For the five months ended September 2018, determined whether procedures existed for the disposition of active cases with a pending status and inactive cases with a balance due.



TARRANT COUNTY
JUDGE CHRISTOPHER GREGORY
JUSTICE OF THE PEACE, PCT. #4

February 26, 2019

Renee Tidwell
County Auditor

RE: Auditor's Report – Exit Review for the Justice of Peace, Precinct 4

Dear Ms. Tidwell,

I am in possession of the draft report for the exit review your department conducted on my office prior to my arrival. I wish to express my appreciation to your staff for their work and the diligent effort to help my staff resolve any issues that were identified during the exit review. I would like to address each observation and advise what has been implemented to correct the deficiencies.

Observation #1 Segregation of duties not adequate between certain task.

Corrective Action – Justice Court 4 is implementing policies and procedures to diversify certain task identified between employees to segregate duties. Justice Court 4 also has converted to a consolidated banking system for greater accountability on funds collected and dispersed by the court.

Observation #2 Procedures for the disposition of misdemeanor cases in Odyssey Case Management System were not adequate.

Corrective Action – Justice Court 4 is implementing new policies and procedures to address the documentation of correct disposition in the Odyssey System on misdemeanor cases. Justice Court 4 has also implemented a monthly report to be run to identify any errors in dispositions entered into the Odyssey System.

Observation #3 Transactions processed in Odyssey were not always accurate or adequately supported.

Corrective Action - Justice Court 4 is implementing policies and procedures for better accountability of transaction processed along with a second check system by another clerk.



TARRANT COUNTY
JUDGE CHRISTOPHER GREGORY
JUSTICE OF THE PEACE, PCT. #4

Observation #4 Certain system functionality has not been implemented in Odyssey.

Corrective Actions- Audit, Tarrant County IT, Tyler have been working to implement a fix to the functionality of the Odyssey system.

Observations #5 The bank reconciliation was not properly reconciled.

Corrective Action – Justice Court 4 along with the assistance of the Tarrant County Auditor’s Office has already implemented a One Banking Institute for greater accountability on funds collected and dispersed from the JP4 court. With this implementation bank reconciliation is automated and controlled by the Auditor’s office.

I truly appreciate the Tarrant County Auditor’s Office review of the financial and system controls in the Justice Court Precinct 4. We value our strong working relationship and the ability to work through issues in an open and productive environment.

Should you have any questions, please contact me or my court manager, Emily Stuart.



Judge Christopher Gregory
Justice of the Peace Precinct #4
Tarrant County